



June 2023

Serving Americans Well: Removing Bureaucracy to Help Americans Access Tax Credits

Meegan Dugan Adell, Dylan Bellisle, & Vanessa Rangel

New America Chicago

Last edited on June 15, 2023 at 3:49 p.m. EDT

Acknowledgments

This report is a direct result of thousands of hours of work helping hard-working Illinois families learn how to receive their much-deserved stimulus checks and Child Tax Credits. As such, it would not be possible without the entire Get My Payment Illinois Coalition. Very special thanks to the many parents, grandparents, and families who opened up their lives to us. You know who you are and we are so thankful for your trust and openness. Thank you to Christine Cheng, Jody Blaylock Chong, Tracy Frizzell, Barbara Martinez, Katherine Socha, Andres Serrano, and every single mini-grantee organization for all you did to make the Get My Payment Illinois project a success. Thank you for helping us translate what we learned from the people we all served into policy lessons. Special thanks to Irais Flores Medina and Danielle Chynoweth for sharing what you learned in the communities you serve with distinction. Thank you to Sylvia Hibbard and Ryan Spangler for teaching us about your clients' experiences and working tirelessly to help the people of Chicago. Thank you to Suniya Farooqui, Dora Elias McAllister, and Bhargavi Thakur for being patient and helpful research partners.

Special thanks to the amazing and incomparable EPEC team, especially Shannon Lynch, Molly Martin, Nicholas Martinez, LuLin McArthur, Naomi Morduch Toubman, Jodi Narde, Jason Stewart, Joe Wilkes, and Samantha Webster for your enthusiastic support. Thank you also to Joshua Jackson for working hard to make our multimedia efforts less academic and more meaningful. Special thanks to Brad Fruhauff for his support in editing this paper. Thank you Gabriel Zucker for keeping the bar high. Hearty thanks are due to The Chicago Community Trust and Irving Harris Foundation for their generous support of this work. The views expressed in this report are those of its authors and do not necessarily represent the views of the funders, their officers, or their employees.

About the Author(s)

Meegan Dugan Adell is the director of Chicago portfolio in New America Local, in collaboration with the Chicago Community Trust.

Vanessa Rangel is a senior program associate who supports New America Chicago's predatory lending, tax credits, and community policy design projects.

Dylan Bellisle, M.S.W., Ph.D. is a Postdoctoral Research Fellow with the Project for Middle Class Renewal at the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign.

About New America

We are dedicated to renewing the promise of America by continuing the quest to realize our nation's highest ideals, honestly confronting the challenges caused by rapid technological and social change, and seizing the opportunities those changes create.

About New America Chicago

New America Chicago is a nonpartisan policy innovation lab based at The Chicago Community Trust. We convene community members, thought leaders, and policymakers committed to finding practical solutions to community challenges, particularly those related to racial inequity, work, and income.

Contents

Background	5
A Complicated System for a Transformative Policy	7
Progress towards a Simpler Approach	9
Research Participants: Who Is Represented	11
Summary of Findings	13
Challenges to Receiving the CTC and Other Credits: Lower Income Intermittent and Non-Filers	15
Challenges to Receiving the CTC and Other Tax Credits: Parents of Children under Three	17
Tipping Factors across Income Levels, Race, and Ethnicity	18
Policy Recommendations	21
Conclusion	26

Background

Beginning in the early 1990s, the federal response to family and child poverty began to shift away from an entitlement welfare policy that provided a small cash stipend to low-income parents with children to a package of policies that required labor force participation for receipt. One central policy of this shift was expansion of the Earned Income Tax Credit (EITC), a refundable tax credit started in 1975 designed to supplement low-wage earnings of parents and caregivers with children. By 2022, the EITC was worth up to nearly \$7,000, and it delivers thousands of dollars in tax refunds annually to working families. The significant expansion to the EITC in the early 1990s and subsequent expansions since have firmly established the EITC as one of the largest anti-poverty policies in the United States, lifting an estimated 3 million children out of poverty annually.¹

In 1997, the Child Tax Credit (CTC) was added to federal tax policy and created as a small, non-refundable credit to help offset taxes for middle-class families with children. By 2001, CTC eligibility was expanded to allow some low-income working families to access the credit. Subsequent legislation further expanded CTC eligibility to lower-income families and introduced a refundable portion of the credit (i.e., additional child tax credit or ACTC), allowing low-income families to receive a portion as a tax refund. In 2017, the maximum CTC amount was increased to \$2,000 per child and the ACTC to \$1,400.²

Annually, the EITC and CTC together lift over 10 million people out of poverty, including over 5.5 million children. About 30 million workers and families benefit from the EITC, benefiting significantly more than the 900,000 families who participate in the remnants of the U.S. cash welfare policy through the Temporary Assistance for Needy Families (TANF) program.

“I try to make sure that I use it [CTC] for [the kids], whatever they needed. If it was food, clothes, shelter, whatever. It was for them.”

– Cecilia, 44, office worker, 3 children, <\$25k annual income

The EITC and CTC jointly have significantly reduced poverty. However, at their current wage-earning thresholds, they fail to adequately respond to the needs of very low wage-earning families and families that primarily rely on other income sources such as retirement, veterans, social security, and disability benefits. The American Rescue Plan Act of 2021 (ARPA) temporarily eliminated the wage-earning requirements for the CTC—expanding eligibility to very low-income families and families with these types of income—and increased the maximum credit amount to \$3,600 per child. Emerging research has shown that the ARPA expansion of the CTC helped reduce child poverty to a historic low³ and reduced

food and material hardships⁴ without reducing employment among working parents.⁵

“When that check started hitting, I was like, this is a blessing because I could do something with this. I feel like [the CTC monthly payment] was very life changing because I became a business owner.”

- Lu, 33, self-employed, 6 children, <\$10k annual income

Yet, the federal government failed to renew the expansion, so in 2022, the maximum credit amount and eligibility requirements reverted to pre-pandemic rules. Under these rules, the credit is ineffective at addressing poverty for very low-income families and families that primarily rely on income from unearned sources. This resulted in many caregivers who work part-time or stay home to care for children, like grandparents and stay-at-home moms, losing a resource that was essential for creating a thriving environment for the children they care for. In addition, many people in low-wage jobs who aren't required to file taxes make the logical decision to avoid the pain of filing taxes, since they don't know how much they might be eligible for in tax credits or whether they will end up paying.

A Complicated System for a Transformative Policy



Source: Zurijeta/Shutterstock

Despite the transformative impact of the ARPA-expanded CTC,⁶ a growing line of research by scholars and advocates suggests that low-income families and others often face barriers to accessing tax credits like the CTC and EITC that many higher-income families can't even imagine.⁷ As we will show in this report, various bureaucratic, financial, and systemic barriers can make it difficult for these families to file a tax return, and fear of making a simple error can keep some from filing and claiming their much-needed tax credits.⁸

“Who wants to be so sick they can't work? I never did... It's supposed to be easier for people like me to claim [the Child Tax Credit], but I feel like they forgot about us, us raising our grandchildren.”

– Colleen, 57, receives disability benefits, 1 grandchild, <\$25k annual income

Even when tax returns are quite basic, complex language and processes create unnecessary barriers and cultivate a sense of confusion or even fear among many low-income filers. Errors in claiming the EITC can lead to people receiving frightening audit or review letters. Indeed, low-income families are five times

more likely to be audited than higher-income families, and Black tax-filers are more likely to be audited than non-Black tax-filers.⁹

Our research reveals that immigrant families encounter distinct challenges finding an appointment to obtain Individual Tax Identification Numbers (ITINs),¹⁰ language barriers to understanding how to access tax credits, additional eligibility requirements, and concerns about adverse consequences for claiming tax credits.¹¹ Furthermore, many families experience unnecessary and unique complexities in determining who should receive child-related tax credits when parents and relatives from multiple households are involved in raising a child.¹² Recent research suggests that among lower-income families, families of color—particularly Black families—are more likely to encounter such complexities in determining their eligibility for tax credits, which can further entrench existing racial income inequities.¹³ While businesses, business owners, and consumers benefit from higher profits and lower cost items thanks to these low-wage workers, the workers themselves continue to struggle to make ends meet.

Financial barriers to tax filing also exist. This includes the high cost that tax preparers charge, which are often inflated when a tax filer can claim the EITC despite the relative administrative ease of claiming the EITC on a tax form for experienced preparers.¹⁴ Even when our interviewees paid \$400 or more for tax preparation services, errors by tax preparers were common and could potentially cost families hundreds or thousands of dollars. For all of these situations, finding help from a local Volunteer Income Tax Assistance program (VITA) can be helpful, but there simply aren't enough knowledgeable volunteers or staff to serve the need. Ironically, many of these families may only have one or two W-2's and technically could file their own taxes.

Simply put, the process is much more complicated than it needs to be. Policymakers and tax administrators at the federal and state levels can implement several eligibility and administrative changes that would advance tax fairness and ease application processes. Below, we will present several ways to simplify tax credits and the tax filing process to start addressing these issues. We believe these changes would immediately reduce childhood poverty and material hardship and translate to various long-term positive outcomes for families and society at large.

“[W]e went in for every month [CTC advance monthly payments]. We kind of needed it at that point. And it was a really huge help.”

– Anni, 25, stay-at-home mom and freelance worker, 3 children, <\$25k annual income

Progress towards a Simpler Approach



Source: Anatoliy Karlyuk/Shutterstock

A simpler approach to filing taxes and receiving credits is commonplace in other developed nations and would make life easier for millions of low- and middle-income Americans.¹⁵ Unfortunately, what could be a simple issue of better customer service and clearer public policy has often become a political football. However, simplifying government processes, helping keep children out of poverty, and reducing extra steps and paperwork would benefit constituents in every corner of the country, regardless of their political orientation.

Addressing the overly complicated design of the credits to make it easier to assess eligibility would remove administrative burden from low- and middle-income families and the IRS alike as well as improve accuracy. The IRS has already made some progress in relieving the pressure on individuals to parse out tax policy on an annual basis. Responding quickly to the COVID-19 pandemic, the IRS debuted two simplified filing tools in less than two years: 1) the non-filer tool¹⁶ on the IRS website to help people who have extremely low or zero income claim their stimulus checks; and 2) the site GetCTC.org¹⁷, in partnership with Code for America, to help low-income individuals claim their CTC and third stimulus check, with the opportunity to fill out a full tax return through the existing GetYourRefund.org to receive both the CTC and EITC. Between April and September of 2020, seven million people used the IRS non-filer tool to request their stimulus checks.¹⁸ Nearly 190,000 people used GetCTC.org to file tax returns, with nearly 80,000 accepted by the IRS in 2022, while others used

GetYourRefund.org to submit a full return and access the EITC.¹⁹ These tools simplified access to the CTC and stimulus checks (Economic Impact Payment or Recovery Rebate Credit) and were a huge step in the right direction, but they needed additional refinements to meet the needs of a large number of low-income families, while minimizing fraud.

The Inflation Reduction Act allocated \$80 billion to the IRS for improving taxpayer services and operating support, including studying the potential for a free, direct e-file tax return system. Based on lessons learned from the field over the last three years, the recommendations in this paper could improve federal and state governments' ability to help struggling families access needed tax credits and reduce costly errors by removing painpoints in the process and simplifying the way the credits work.

Research Participants: Who Is Represented



Source: Shutterstock

As part of the Get My Payment Illinois Coalition, in 2021 and 2022 the New America Chicago team worked with partners at Heartland Alliance to listen to low- and lower middle-income tax filers, people who earn poverty wages and don't need to file, as well as VITA programs and social service agencies helping people claim their Child Tax Credits and stimulus checks, sometimes for the first time. Our research draws from the direct experiences of 34 individuals and the experiences of over 27 VITA experts and nonprofit staff who directly helped hundreds of additional tax filers, primarily in Illinois. Four worked in other parts of the country. These staff members also shared experiences from their colleagues.

Among the 34 individuals whose direct experiences are included, the New America Chicago team interviewed 20 participants from around the state of Illinois about their experiences claiming the enhanced Child Tax Credit during the pandemic, as well as asking them to review past experiences with the IRS non-filer tool or GetCTC.org. For those who had not used the tool, we walked these participants through an user experience activity where they gave responses to each page of one or more free tools used to help non-filers request their Child Tax Credit or other tax credits. We asked an additional four participants to complete a four-part user experience exercise, where they searched the internet for free tax filing options, reviewed GetCTC.org, and shared their understanding

of each page and their reactions (one person was also included in the interviewees mentioned above). Our team also received de-identified, relevant quotes from an additional 11 interviews conducted by research partners. Pseudonyms have been used where there are quotes to protect participants' privacy.

To learn more about the barriers that keep some people from filing taxes and receiving their tax credits, we also compiled data from meetings and surveys with 15 Illinois nonprofits and three Illinois city or county governments who provided information about filing for the Child Tax Credit and stimulus checks to low- and middle-income communities during the COVID-19 pandemic in 2020 and 2021. The New America Chicago team also reviewed quotes from VITA experts who help low-income individuals and families complete their taxes.

For the purposes of our research, the New America Chicago team attempted to focus on people who are normally not required to file taxes and as a result may miss out on tax credits owed them, as well as parents of young children, to learn more about their specific barriers. Among our interviewees and bloggers, just over half (57 percent or n=13) earned too little money to be required to file, approximately less than \$25,000 per year for a married couple filing jointly and half that for a single filer (at the time of interviewing). Our results also include information from de-identified quotes from eight people who normally earn too little to be required to file taxes (also known as non-filers) interviewed by Heartland Alliance, where relevant.

Over half (52 percent or n=12) of New America Chicago's participants were raising a child or family member aged three or younger. Interviewees came from urban, suburban, and rural areas, with 61 percent from the City of Chicago, 22 percent from surrounding suburban areas, and 17 percent from central or southern rural Illinois. For this project, we were also particularly interested in the experiences of the Black and Latina/o communities, so we attempted to oversample those taxpayers as they have historically faced additional barriers to accessing the CTC. Just over half (56.5 percent or n=13) were African American or Black, just over a quarter (26 percent or n=6) were Latina/o, and 17 percent were white (n=4). One was multiracial.

Summary of Findings



Source: Nastuffa/Shutterstock

All of the interviewees found the increased 2021 CTC, as well as the EITC (if they received it), extremely helpful. Most had used the CTC and any other refund money they received to pay for basic needs including housing, food, and clothing. A few others had used it to catch up on old bills, build savings, or as one parent mentioned, building for the future by investing in starting a new business. Some had used a small portion of the money to do something special to bring joy to the family such as go to the movies or get their child something special. The monthly payment was particularly helpful to some of these parents as it allowed for a steady stream of additional income throughout the year rather than just at tax time.

However, accessing the Child Tax Credit and other credits wasn't straightforward for everyone. Across the board, regardless of income or education level, most people found some aspect of the tax filing process or terminology confusing. Most interviewees did not know exactly what credits they had received, which they were eligible for, or exactly how much they should claim. Even using the same online search terms, people who completed our user testing encountered a confusing plethora of different tax tools, some of which claimed to be free but weren't. Even the most tax savvy interviewees weren't always clear on which filing tools they could use and which they weren't eligible to use. Parents of small children often were new to the process and didn't have much extra time to solve any issues that arose in filing. People with housing

instability, immigrants, people in complicated custody arrangements, and non-parental guardians faced extra challenges in claiming their tax credits.

Most people, even those who felt confident in their tax filing ability, expressed some level of nervousness about making a mistake. This was mitigated by finding help in some way. Many had asked for help from a friend or family member who worked for a tax preparation service or was more knowledgeable about taxes. Quite a few mentioned that they would like to hire an accountant or have a paid service in the future when they were making more money to ensure they weren't making any mistakes on their taxes.

However, several interviewees had experienced some type of problem with a paid preparer or online DIY tax preparation programs²⁰ in the past. In fact, several of the people we spoke with had a paid preparer make an error on their taxes at some point and lost money as a result, or they had themselves made an error using online tax preparation software. A few people had an extremely bad first experience filing taxes with a paid preparer which left them apprehensive. Two had filed taxes for the first time after working a W-2 summer job for youth and strangely ended up owing a great deal of money. These experiences of tax return errors with tax preparers left the interviewees frustrated and perplexed. They sought out professionals to ensure their returns were properly prepared, but ended up in exactly the situation they had tried to avoid.

→ ILLINOISANS FACE SAME BARRIERS AS MILLIONS OF AMERICANS

There are a number of different barriers that can make it difficult or impossible to claim tax credits owed to American taxpayers, such as the CTC and EITC. These numbers illustrate the size of the problem in Illinois, but these barriers are experienced by millions more people across the entire country.

Hear from Illinoisians themselves.

However, there were a number of improvements and bright spots that made it easier for people to claim their credits over the last few years. Everyone we spoke with found the new online filing tools, including the free IRS non-filer tool made available during the pandemic, and GetCTC.org helpful. Even those who weren't eligible for using these tools found them attractive and were interested in using them to make tax filing easier. In addition, having more

nonprofits and municipalities share resources and information and take time to help people solve challenges related to filing for taxes made a huge difference in ensuring more struggling families were able to claim their much needed tax credits. A number of people noted that just having a family member to ask or being able to get live help on a simple question from a VITA volunteer or through a paid online tax preparation service was incredibly helpful and made the process much quicker and less stressful.

The specific experiences of lower-income families who don't normally need to file and parents of small children follow. It should be noted, however, that many of these barriers are also experienced by those outside of these specific experiences.

Challenges to Receiving the CTC and Other Credits: Lower Income Intermittent and Non-Filers

Around half of our interviewees and bloggers had earnings below the filing requirement threshold and as a result aren't required to file, but may. Many of the nonprofits we spoke with had focused much of their help on very low-income individuals who fall into this group. Because the majority of people who are eligible for but don't claim their CTC or EITC fall into this group, the pain points they encounter are important to address.

Comfort level and familiarity with taxes varied for this group. Some were very comfortable doing taxes and had even helped others with them. Some chose to file taxes because as parents they knew they could get larger refunds. A few avoided doing taxes out of fear or apathy. Some were so confused by tax terminology and processes that they avoided doing them whenever possible for fear of making a mistake and being fined or even jailed. Most who did file had asked for help from a friend or family member or used a paid service to make sure they didn't make any errors. Most wished they could just ask a question here and there or have someone just look over them to make sure they had done them correctly since their taxes are relatively simple.

The majority of lower-income individuals we spoke with found the new simplified filing tools a welcome change, although there were remaining barriers to usage. One of the primary challenges among very low-income populations was the identity verification process itself. Among the non-filer population, many filed intermittently or not at all and as a result couldn't answer verification questions such as last year's Adjusted Gross Income. Others who had moved around due to low-paying jobs, domestic violence, or natural disasters such as flooding had lost past paperwork or simply couldn't recall years-old questions used to prove their identity through the IRS ID.me process.²¹

Nonprofits helping very low-income people claim their CTC and stimulus checks noted that it was very common for people to not have an email or picture ID or to

have had their identifying documents stolen or lost, particularly among the homeless population. For both homeless individuals and young adults who were formerly in foster care, it was fairly common for them to be fraudulently claimed as a dependent by someone else. This made it more difficult for both of these groups to use the online tools released by the IRS and Code for America.²² As a result, some were unable to verify their identity to use either the non-filer tool or GetCTC.org. Both of these challenges added many extra steps to the process of claiming tax credits. For many people in these situations, this required extensive one-on-one help from case managers or other social service agency staff to help them spend hours tracking down the documentation they needed and navigate the process to submit their returns or use the non-filer tool.

Using computers or smartphones to claim stimulus checks or the CTC was a major barrier during the pandemic, especially for very low-income individuals, those in rural areas, and among the elderly. Some people had received free government cell phones, but long call waiting times with the IRS, poor internet, or problems with usability meant they were unable to get help or file a tax return using the limited data or minutes of the cell phones.

The process was particularly confusing and fraught for immigrants and refugees. Getting an appointment to obtain an ITIN in order to file taxes was incredibly difficult. Even in a city like Chicago, there was only one designated organization to take ITIN applications, so getting an appointment took a long time. The process also left them feeling vulnerable since they had to send off their only identifying documents without any sense of when they might receive them back.

These situations made it particularly difficult and time consuming for nonprofits deputized during the pandemic to help struggling families receive their CTC or other tax credits. For particularly difficult cases, people were often referred to a local VITA. Several noted their appreciation for access to the free help from VITA, but finding a nearby location or getting an appointment could sometimes be an issue. This was particularly true for those in rural areas, with complicated tax issues, or with disabilities. One mother in Chicago who had been wrongly claimed as a dependent by a family member for years and has not received her CTC or stimulus checks as a result mentioned how difficult it was to find help through the local VITA or Low-Income Taxpayer Clinic (LITC) to resolve her situation. While VITA is a vital government program, its current capacity continues to be limited, as it is reliant on volunteers and local sites may have limited services for part of the year.²³ The available options and services simply don't fit the need.

Challenges to Receiving the CTC and Other Tax Credits: Parents of Children under Three

In our interviews, user testing, and conversations with nonprofit staff, we found that low-income parents of children under three faced specific challenges. Because many of them were new to filing taxes, they were less aware of what needed to happen and had extra barriers to filing. With active small children around, it was harder for them to keep track of paperwork or deal with any problems that arose during tax filing. Some were generally overwhelmed by raising small children and working. Because they were new to claiming the Child Tax Credit and the Child and Dependent Care Credit, they often didn't know how much they should claim and whether they had received all the credits they should have. Even if they had claimed the Earned Income Tax Credit before, the amount they were eligible for changed drastically once they had children, so they were generally unsure if they had even received the money they should have until they had filed with children for a few years. Parents of young children were generally more confused about the difference between the CTC and EITC, how much they should receive for each, and whether they might have to pay back the advance monthly CTC. Ten out of the 12 parents or guardians of children under three we spoke with were confused in some way by these credits.

Grandparents or other family members who are the primary caregivers of small children face additional challenges in claiming their CTC or EITC. Proving that their grandchild lived with them permanently required extensive paperwork and days of extra work, even if their adult child lived in a different state and was willing to confirm that the grandchild was being cared for by their grandparent. This was even more difficult if the parent wished to receive the tax credit despite the fact that the child did not live with them.

Grandparents or other family members who rely on social security or disability income are often not eligible for the CTC or EITC even if they are the only one raising the child and they are low-income. For those who are well enough to work outside the home part-time, sorting out how much income they can make before losing their disability benefits and whether they can claim the CTC or EITC is confusing. Deciding who would claim the child even when the child lived with the grandparent full-time caused tension and frustration among family members. Despite caring full-time for the child, grandparents or other family members felt that they had to be somewhat dishonest on IRS forms to claim the tax credits they should have received since forms are often designed only with nuclear families and biological parents in mind.

Most of the parents of children under three we spoke with really liked the look and approach of GetCTC.org and found it a huge improvement. A few had used it themselves. Some we talked to earned too little to be required to file taxes previously, so using GetCTC.org or the non-filer tool for stimulus checks were a great option for them. However, an extra challenge arose because they didn't

have a previous Adjusted Gross Income amount or know their previous year's exact income. Nine out of the 12 parents or guardians of small children we spoke with had at least one simple question about using the GetCTC.org page. Some were answered by the question sections, but others would benefit from a live chat. Some didn't realize that by using GetCTC.org they would have to take additional steps to get the remainder of their CTC and their EITC.

“I wish there was a way to know immediately if you filed taxes correctly... there was this meme that I saw going around...the government says you have to file taxes and then the person is like ‘Okay. Well, how much do I owe you?’ and the government says, ‘Oh, you have to figure that out for yourself.’ And then the person's like, ‘Okay, well, what if I get the wrong number?’ And then they're like, ‘Well, you go to jail.’”

- Tonya, 33, veterinarian tech, 2 small children, \$25-35k annual income

Tipping Factors across Income Levels, Race, and Ethnicity

For many of the people we talked to, a number of things made it much easier for them to file taxes and claim their CTC or EITC. These elements were common across the various groups we spoke with who succeeded in filing taxes and claiming their credits. These tipping points also span across the different income levels and races and ethnicities we spoke with and include factors that made a difference for people who received assistance from nonprofits. These tipping factors should be taken into consideration as the federal government and states create new methods and processes in order to help people access their tax credits.

- **Multiple sources of information, one trusted authority:** It was very common for parents of small children to learn they were eligible for the CTC or EITC through word of mouth, particularly family or friends. Many heard about the CTC expansion through social media and the news. However, rumors were common, so many people used the IRS website to double-check accuracy. Having clear information for a variety of reading-skill levels is essential on the IRS website and social media outlets.
- **Simplified filing:** Nonprofits reported that many low-income individuals who normally struggle to claim their tax credits were able to claim one for the first time using the web-based IRS non-filer tool because it was so simple to use once they proved their identity. Both GetCTC.org and the IRS non-filer tool made it easier for parents of babies and toddlers who aren't as familiar with the tax process to claim their tax credits and stimulus checks, some for the first time. People who weren't eligible to use it were also very interested in using the simplified tool.

- **Clean, clear design:** All of the people who completed user-experience research through an interview or blogging exercise on GetCTC.org loved the friendly, uncluttered design and found it helpful to have such a simple, clear approach to filing taxes.
- **Auto-entry:** For many, having a website that kept previous documents and tax information (including Adjusted Gross Income) and estimated their potential refund made it much less painful to file. In an IRS or state taxes tool, this would reduce errors and fear of making errors among filers.
- **Step-by-step approach:** Having an online, tax filing tool with simple, clear language that walked them through each step and asked clear questions to collect the answers to each item was very useful for most people who had used an online tax filing software, GetCTC.org, or GetYourRefund.org.
- **Immediate feedback:** Online tax filing tools which showed people exactly what they had missed or made an error on and provided an immediate refund estimate made it much easier for people to file and claim their credits.
- **Additional information section:** People using GetCTC.org found the additional questions and information section incredibly helpful. Having an attractive page with lots of white space but the option to click for more information made the return process less overwhelming, while also addressing questions immediately.
- **Personal assistance:** Most people, even those who are very confident in their tax filing ability, needed some type of personal assistance. That ranged from just being able to ask a real person a clarifying question about wording on a form to walking them through getting missing identification papers or contesting when they had been fraudulently claimed as a dependent. Two types of help were particularly useful.
 - **Rapid, personal assistance:** Because American taxes are particularly complicated, people inevitably had questions, including simple questions about terminology. Some people asked friends or family who do taxes for a living or know more about them. Participants could tell fairly quickly if a live chat was actually a live person or a chatbot. Many people valued and were more likely to choose an online tax-filing tool featuring a live chat with an actual person to answer questions that arose during filing, than one with a chatbot.

- **In-depth, personal assistance:** A key tipping point for struggling, low-income people was getting one-on-one assistance to figure out how to resolve confusing tax situations or bureaucratic hurdles. For some, they were able to get through on the IRS helpline and get their questions answered, although wait times were long. Others were able to resolve complicated issues or figure out how to resolve issues with ID.me with help from a VITA site or trusted local nonprofit or municipal social worker helping people receive one-time assistance during the pandemic. Having trusted nonprofit partners available to help allowed some people who desperately needed their credits to claim them for the first time. For those who could afford it, getting an accountant or paid preparer made them feel slightly more confident that they wouldn't get into trouble with the government.

Policy Recommendations

Even fairly confident American taxpayers are confused by complex and arbitrary federal tax rules. For those in poverty, many experiencing chronic or toxic stress, it's even more difficult to parse out. The current federal tax code is incredibly complicated, but it doesn't have to be that way. With the will, Congress and the IRS can simplify the tax code and eligibility rules for important tax credits like the CTC and EITC. To ensure struggling families can actually access those tax credits, it's also important to learn from experiences with the non-filer tool, GetYourRefund.org, and GetCTC.org to improve functionality and access for families in a variety of different circumstances.

Many parents and caregivers are confused by the different eligibility requirements for the EITC and CTC, and the various earnings thresholds for the credits make family budgeting difficult. The option to create a free, direct e-file IRS tool could be an important step to improving access to needed tax credits by low- and middle-income families, but only if it is well-designed and easy to use for struggling families. However, there is even more the federal government and states can do to take the pain points out of the process. Research suggests that federal and state governments already collect the information they need to automatically process returns for 44 to 48 percent of Americans accurately.²⁴ Implementing some type of autofiled return process similar to those found in other developed nations would greatly reduce the pain points in the filing process.

Simplifying the credits would improve the process even more. The Taxpayer Advocate²⁵ has recommended separating the EITC into a worker benefit and a child benefit, and conservative²⁶ and progressive²⁷ policymakers and advocates have put forth proposals to merge the child benefit of the EITC with the CTC to create a Unified Child Benefit (UCB). Work and earnings requirements continue to be a point of disagreement between Democrats and Republicans, but there is a possible compromise that would center low-wage workers and retired or disabled caregivers to ensure low-income families are supported and know exactly how much they will receive.

We have organized these recommendations for simplified credits, improved e-file options, and other accessibility measures according to a set of priorities that would make filing taxes and claiming the appropriate credits easier for everyone.

Make it make sense.

- Review language on letter templates, e-file, and paper returns to ensure language is at a 6th grade reading level for the millions of Americans with limited literacy.

- Create translated documents or optimize online forms for multilingual text-to-speech readers in the top three languages spoken by ITIN filers.
- In the new direct e-file system and other IRS communications, use a simple step-by-step process to tell people what credits they are eligible for and give people estimates of their credits and refunds.
- Make rejection codes clearer when people are bounced out of online e-file systems or paper application processes so they can resolve the issue quickly.

Make it easy, do it once.

- Create a simple online calculator for gig and contingent workers that consolidates 1099 amounts and any additional cash payments into a total annual amount.
- Create intergovernmental data-sharing agreements to automatically add other income sources reported to the government in prepopulated tax forms. Create a paper option for low-income people, the elderly, or those without computer access. Individuals can then confirm, correct, or add other sources.
- Create a free, direct e-file solution that includes an option for state taxes to streamline the process. Test with several states.
- For people receiving only W-2 income, prepopulate income information in the direct e-file tool using employer W-2 submissions. Create a paper option for those without computer access. Individuals can then confirm or correct their returns.
- Ensure e-file automatically claims EITC or CTC at the correct amount if income levels and dependents entered indicate that someone is eligible.
- Prepopulate returns in direct e-file with past Adjusted Gross Income²⁸ (if applicable), dependents, EITC or CTC eligibility, and filing status.
- Alert people when their tax return is processed and include income, taxes paid, credit amounts, and refund amount. Use the direct e-file interface to explain clearly what was paid during the year, what people should have paid, and what is refunded and why.

Ensure the Americans struggling the most get help.

- Work with municipalities, state agencies, the U.S. Postal Service, and local nonprofits to create a process to allow people struggling without permanent addresses to receive any refunds in electronic cash apps or prepaid debit cards securely.
- Ensure a simple paper process is available for low-income, housing insecure, or elderly people who don't have computers or smartphones. Include the option for pre-populating income information for people with no deductions and simple income that is already reported to the government.
- Add capacity to IRS phone help lines to ensure people with government phones or no computer are able to get through and ask questions quickly. Triage with VITA, municipalities, counties, and other nonprofits for more in-depth help such as getting lost identity paperwork.
- Create a live chat on the IRS website for simple, quick questions. Make it easy to find from the homepage.
- Refine and reintroduce the IRS non-filer tool for people earning very little money, providing additional options for identification verification to address issues with the original tool.

Make it easier to follow the rules.

- Allow municipal and state social service agencies, vital records offices, drivers license offices, and post offices to confirm identities in person and confirm directly to the IRS.
- Allow people getting lost or stolen birth certificates replaced to certify their identity once and have the vital records government agency confirm that with the IRS directly.
- Allow municipal and state social service agencies and post offices to verify immigrant documentation in person and confirm that documentation to the IRS for ITIN number applications.
- Fund and train a larger network of local nonprofit organizations to work with immigrants and refugees to explain the process and help them apply for ITINs.
- Provide funding and training to municipal, county, and state social service offices to offer help with resolving documentation and paperwork issues.

Give the CTC to the people caring for the children.

- Make the definition of a dependent child consistent across government departments, including those administering SNAP, WIC, and other government benefits.
- Make the CTC and EITC available to low-income grandparents and family members who are the primary caregivers for children, even if they are retired or on disability, by allowing additional forms of income to count for eligibility. Allowing these forms of income to count towards calculating their CTC and/or EITC will ensure that children raised by grandparents or caregivers with disabilities are not penalized simply because their caregiver cannot work.
- Discontinue the residency and support requirements to allow families to decide who will claim a child.
- Provide grandparents and family members who are the primary caregivers of children a simple way to prove it, and offer a clear process to allow them to split credits with parents if they wish, similar to the process for divorced parents.

Establish minimum standards and proper regulation of return preparers.

- Paid return preparers play a crucial role in tax administration, yet there are no required minimum standards or regulation of preparers. The lack of minimum standards and regulations harms taxpayers when their tax returns are prepared by incompetent or unscrupulous preparers and costs the government billions annually.²⁹ New legislation should allow the IRS to establish minimum standards and regulation of paid return preparers.

Don't go after the poorest people.

- Low-income families should be exempt from penalties, late fees, and interest in the case of minor errors on their tax returns. This may be one way to address fears and concerns about "getting in trouble."
- Create a "safe-harbor" for low-income families. This could be similar to the safe-harbor created under the enhanced CTC—that if someone overestimates how much EITC or CTC they are eligible for (e.g., they forgot to report certain income), then they only have to pay back a certain proportion of it or none of it on the first occasion.

- Create a larger “safe-harbor” provision to reduce reporting requirements for low-income families earning small amounts of money at side or gig jobs.

Streamline the tax credits that benefit low-income families the most.

- Create a straight-forward Unified Child Benefit (UCB) by merging the child benefit of the EITC with the CTC and making the EITC a worker benefit to clarify eligibility requirements and make the credits easier to understand and plan for. A compromise that could be palatable to both sides of the aisle would be setting the income threshold for the full UCB low enough (e.g., \$6,000) and including all sources of income to ensure low-income families receive help and know exactly how much they will receive.

Conclusion

The CTC and EITC have historically helped lift families out of poverty and have been a lifeline to struggling Americans. However, the process to claim these credits is outdated, unnecessarily complicated, and sometimes scary. This can deter low-income families who need these credits from claiming them. The federal government and IRS could make it much simpler for people to file taxes and access tax credits they are owed by easing administrative processes and simplifying eligibility requirements.

In addition to making filing processes simpler, streamlining eligibility for the CTC and EITC is one key in addressing these issues. Parents and caregivers are confused by the complicated rules, and not knowing how much they might owe or receive makes budgeting difficult. Taking a middle-road approach that includes a separate worker and child tax credit that are easier to understand and claim is one of the best ways to address this issue. Various researchers and advocates have offered proposals to expand and simplify the eligibility for the EITC and CTC, or even combine aspects of the two credits, and further research is necessary to weigh the costs and benefits of these proposals. Our research points to the need to seriously explore this option, in addition to using the best technology and data systems to help make the process of filing taxes and claiming much deserved tax credits a simpler process for a majority of American families through a greatly streamlined approach.

Federal and state governments already collect the information they need to automatically process returns for nearly half of all Americans. In addition, the accuracy of these types of prepopulated returns is higher for lower-income people due to the lower number of deductions they claim.³⁰ Using such an approach has been shown in Europe and elsewhere to improve accuracy of returns—and, as a result, the cost of administration.³¹ That means wading through tax forms and worrying about claiming the wrong tax credit is entirely unnecessary for millions of Americans, particularly lower income Americans who often lack the resources and/or time to do so.

Simplifying the tax code and tax filing processes would not only save families time, money, and the stress of fearing they have made a mistake, but could also save tax revenue as tax credits and refunds will go to those entitled to them and fewer IRS resources will be used addressing tax-filing mistakes. The result is a win-win for the American public.

Notes

- 1 Center on Budget and Policy Priorities, *Policy Basics: The Earned Income Tax Credit* (Washington, DC: CBPP, 2019), <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>.
- 2 Congressional Research Service, *The Child Tax Credit Legislative History* (Washington, DC: CRS Report R45124, 2021), <https://sgp.fas.org/crs/misc/R45124.pdf>.
- 3 Congressional Research Service, *Temporary Assistance to Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions* (Washington, DC: CSR Report RL32760, 2023), <https://sgp.fas.org/crs/misc/RL32760.pdf>.
- 4 S. Collyer et al., *The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-being: Evidence from New York City* (New York, NY: SocArXiv, 2022), <https://doi.org/10.31235/osf.io/rnmfv>; L. Hamilton et al., *The impacts of the 2021 expanded child tax credit on family employment, nutrition, and financial well-being* (Washington, DC: Brookings Institution, 2022), <https://www.brookings.edu/research/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/>; A. Burnside, B. Fuller, and Q. Zhang, *How Parents Use the Child Tax Credit, and Implications of Ended Monthly Payments Key Findings, July 2022 Continental U.S. Survey*. (Washington, DC: Center for Law and Social Policy, 2022), <https://www.clasp.org/wp-content/uploads/2022/09/Continental-CTC-Survey-3-Topline-Findings-1-1.pdf>.
- 5 E. Ananat et al., *Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to December 2021* (Cambridge, MA: National Bureau of Economic Research, 2022), https://www.nber.org/system/files/working_papers/w29823/w29823.pdf; N. Pilkauskas et al., *The Effects of Income on the Economic Wellbeing of Families with Low Incomes: Evidence from the 2021 Expanded Child Tax Credit* (Cambridge, MA: National Bureau of Economic Research, 2022), <https://www.nber.org/papers/w30533>.
- 6 N. Pilkauskas et al., *The Effects of Income on the Economic Wellbeing of Families with Low Incomes: Evidence from the 2021 Expanded Child Tax Credit* (Cambridge, MA: National Bureau of Economic Research, 2022), <https://www.nber.org/papers/w30533>; Center on Poverty and Social Policy, *3.7 Million More Children in Poverty in Jan 2022 without Monthly Child Tax Credit* (New York, NY: Columbia University, 2022), <https://www.povertycenter.columbia.edu/news-internal/monthly-poverty-january-2022>; D. Perez-Lopez and Y. Mayol-García, *Parents with Young Children Used Child Tax Credit Payments for Child Care* (Suitland, MD: U.S. Census Bureau, 2021), <https://www.census.gov/library/stories/2021/10/nearly-a-third-of-parents-spent-child-tax-credit-on-school-expenses.html>.
- 7 D. Bellisle, R. M. Goldberg, and Y. S. Hong, *Families' experiences with the child tax credit: Advancing tax equity through administrative reforms and community partnerships* (Champaign, IL: Project for Middle Class Renewal - University of Illinois at Urbana-Champaign, 2023), <http://lep.illinois.edu/wp-content/uploads/2023/02/Understanding-Fam-Exp-2-14-23.pdf>; E. Maag, H. E. Peters, and S. Edelstein, *Increasing Family Complexity and Volatility: The Difficulty in Determining Child Tax Benefits*, (Washington, DC: Urban Institute, 2016), <https://www.urban.org/research/publication/increasing-family-complexity-and-volatility-difficulty-determining-child-tax-benefits>; National Taxpayer Advocate, *Earned Income Tax Credit: Making the EITC work for taxpayers and the government* (Washington, DC: IRS, 2020), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20_Volume3.pdf.
- 8 Code for America, *Earned Income Tax Credit Research: Findings in Colorado and California* (San Francisco, CA: Code for America, 2019), <https://files.codeforamerica.org/2021/07/09131827/EITC->

Research-Findings-Report--January-July-2019--GetYourRefund.pdf; G. Zucker and L. Wagner, *Talking to Non-Filers: Evidence from Qualitative Research with Families Who Don't Regularly File Taxes* (Washington, DC: New America, 2021), <https://www.newamerica.org/new-practice-lab/blog/talking-to-non-filers/>.

9 TRAC Reports, Inc., "IRS Audits Poorest Families at Five Times the Rate for Everyone Else," (Syracuse, NY: Syracuse University, 2022), <https://trac.syr.edu/tracirs/latest/679/>; H. Elzayn et al., *Measuring and Mitigating Racial Disparities in Tax Audits* (Stanford, CA: Stanford Institute for Economic Policy Research, 2023), <https://siepr.stanford.edu/publications/measuring-and-mitigating-racial-disparities-tax-audits>.

10 Individual Tax Identification Numbers (ITINs) are issued instead of Social Security Numbers to individuals who wish to pay taxes and register their income with the IRS but are currently not eligible for a Social Security Number (technically called nonresident or resident aliens). People who have ITINs are not eligible for the Earned Income Tax Credit, but during the pandemic they were eligible for some but not all pandemic relief dollars.

11 L. Godinez-Puig,, A. Boddupalli, and L. Mucciolo, *Lessons Learned from Expanded Child Tax Credit Outreach to Immigrant Communities in Boston* (Washington, DC: Urban Institute, 2022), <https://www.taxpolicycenter.org/publications/lessons-learned-expanded-child-tax-credit-outreach-immigrant-communities-boston>.

12 E. Maag, H. E. Peters, and S. Edelstein, *Increasing Family Complexity and Volatility: The Difficulty in Determining Child Tax Benefits* (Washington, DC: Urban Institute, 2016), <https://www.urban.org/research/publication/increasing-family-complexity-and-volatility-difficulty-determining-child-tax-benefits>.

13 K. M. Michelmore and N. V. Pilkauskas, "The Earned Income Tax Credit, Family Complexity, and

Children's Living Arrangements," *RSF: The Russell Sage Foundation Journal of the Social Sciences* 8(5) (August 2023): 143–165, <https://doi.org/10.7758/RSF.2022.8.5.07>; D. Bellisle, R. M. Goldberg, and Y. S. Hong, *Families' experiences with the child tax credit: Advancing tax equity through administrative reforms and community partnerships* (Champaign, IL: Project for Middle Class Renewal - University of Illinois at Urbana-Champaign, 2023), <http://lep.illinois.edu/wp-content/uploads/2023/02/Understanding-Fam-Exp-2-14-23.pdf>; T. Meschede, et al., *Not Only Unequal Paychecks: Occupational Segregation, Benefits, and the Racial Wealth Gap* (Waltham, MA: Institute on Assets and Social Policy at Brandeis University and The Workers' Lab, 2019), https://scholarworks.brandeis.edu/esploro/outputs/report/Not-Only-Unequal-Paychecks/9924141021801921?institution=01BRAND_INST.

14 A. Berube, et al., *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC* (Washington, DC: Brookings Institution, 2016), <https://www.brookings.edu/wp-content/uploads/2016/06/berubekimeitc.pdf>; L. Goodman, et al., *Automatic Tax Filing: Simulating a Pre-Populated Form 1040* (Cambridge, MA: National Bureau of Economic Research, 2022), <https://www.nber.org/papers/w30008>.

15 Tax Policy Center, *Briefing Book: A Citizen's Guide to the Fascinating (Though Often Complex) Elements of the U.S. Tax System* (Washington, DC: Tax Policy Center at Urban Institute and Brookings Institution, 2020), <https://www.taxpolicycenter.org/briefing-book/what-other-countries-use-return-free-filing>.

16 Commonly called the non-filer tool or the Enter Payment Info Here Tool by the IRS, this page on the IRS website created in partnership with the Free File Alliance allowed people with extremely low or no income who are not normally required to file taxes to register for the Economic Impact Payments, also known as stimulus checks. The tool closed in November 2020, and after that date, individuals were

required to claim their stimulus checks by completing a tax return.

17 GetCTC.org was a web-based product developed by Code for America in partnership with the White House, Department of the Treasury, and Internal Revenue Service to allow people who were eligible for the Child Tax Credit but normally earn too little to be required to file taxes to have a simple, streamlined way to prove eligibility and claim their advance Child Tax Credit, as well as the third stimulus check. It also allowed people who were eligible for the Earned Income Tax Credit to instead use Code for America's Get Your Refund tool to file a full tax return and get both tax credits.

18 Internal Revenue Service, *IRS Releases State-by-State Breakdown of Nearly 9 Million Non-filers Who Will Be Mailed Letters About Economic Impact Payments* (Washington, DC: IRS News Release, 2020), <https://www.irs.gov/newsroom/irs-releases-state-by-state-breakdown-of-nearly-9-million-non-filers-who-will-be-mailed-letters-about-economic-impact-payments>; Internal Revenue Service, *Use IRS Non-Filers: Enter Payment Info Here tool to get Economic Impact Payment: Many low-income, homeless qualify* (Washington, DC: IRS News Release, 2020), <https://www.irs.gov/newsroom/use-irs-non-filers-enter-payment-info-here-tool-to-get-economic-impact-payment-many-low-income-homeless-qualify>.

19 Code for America, *Details of GetCTC 2022 Usage: Characteristics of GetCTC 2022 Users and Detailed Data on Their Use of The Tool* (San Francisco, CA: Code for America, 2023), <https://files.codeforamerica.org/2023/03/22141952/funnel-and-user-experience-findings-getctc-2022-learning-report.pdf>.

20 DIY tax preparation programs refers to online websites and apps that walk people through the questions on a tax return and file an official return on their behalf after they have entered their basic information and income details and uploaded tax filing documents.

21 ID.me is a corporation that works with the U.S. Internal Revenue Service to provide identity verification for IRS applications. Taxpayers and tax professionals confirm their identities online by uploading documents, recording a video, and answering personal questions.

22 Code for America is a nonprofit that works with government to make it work better for people in the digital age.

23 C. Robertson and S. Gupta, *Improving Public Programs for Low-Income Tax Filers* (Washington, DC: New America, 2022), <https://www.newamerica.org/new-practice-lab/reports/improving-public-assistance-for-low-income-tax-filers/>.

24 L. Goodman et al., *Automatic Tax Filing: Simulating a Pre-Populated Form 1040* (Cambridge, MA: National Bureau of Economic Research, 2022), <https://www.nber.org/papers/w30008>.

25 National Taxpayer Advocate, *2022 Purple Book* (Washington, DC: IRS, 2022), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_PurpleBook_08_MiscRecs_56.pdf.

26 R. Orr and J. McCabe, *Analysis of the Family Security Act 2.0* (Washington, DC: Niskanen Center, 2022), <https://www.niskanencenter.org/analysis-of-the-family-security-act-2-0/>.

27 S. Fremstad, *The Progressive Case for a Unified Child Benefit* (Washington, DC: Center for Economic and Policy Research, 2021), <https://cepr.net/report/the-progressive-case-for-a-unified-child-benefit/>.

28 Adjusted Gross Income is gross income minus adjustments, used by the IRS to determine tax liability.

29 National Taxpayer Advocate, "Minimum Competency Standards for rReturn Preparers Are Crucial Taxpayer Protections," NTA Blog (blog), IRS, February 6, 2023, <https://>

www.taxpayeradvocate.irs.gov/news/nta-blog-minimum-competency-standards-for-return-preparers-are-crucial-taxpayer-protections/; L. Book, “Unscrupulous Return Preparers Draw Attention at the ABA Tax Section Midyear Meeting,” *Procedurally Taxing* (blog), Center for Taxpayer Rights, February 14, 2023, <https://procedurallytaxing.com/unscrupulous-return-preparers-draw-attention-at-the-aba-tax-section-midyear-meeting/>; J. Wanchuck, “IRS Needs Authority to Regulate Tax Return Preparers,” *off the charts* (blog), Center on Budget and Policy Priorities, May 5, 2021, <https://www.cbpp.org/blog/irs-needs-authority-to-regulate-tax-return-preparers>.

30 L. Goodman et al., *Automatic Tax Filing: Simulating a Pre-Populated Form 1040* (Cambridge, MA: National Bureau of Economic Research, 2022), <https://www.nber.org/papers/w30008>.

31 A. Goolsbee, *The ‘Simple Return’: Reducing American’s Tax Burden Through Return-Free Filing* (Washington, DC: Brookings Institution, 2006), https://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/The_Simple_Return_-_Reducing_Americas_Tax_Burden_Through_Return-Free_Filing.pdf.



This report carries a Creative Commons Attribution 4.0 International license, which permits re-use of New America content when proper attribution is provided. This means you are free to share and adapt New America’s work, or include our content in derivative works, under the following conditions:

- **Attribution.** You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

For the full legal code of this Creative Commons license, please visit creativecommons.org.

If you have any questions about citing or reusing New America content, please visit www.newamerica.org.

All photos in this report are supplied by, and licensed to, [shutterstock.com](https://www.shutterstock.com) unless otherwise stated. Photos from federal government sources are used under section 105 of the Copyright Act.